

What Made Possible the Korea's Economic Miracle? : Park Chung Hee's Economization of Politics, Economic Discrimination and Corporate Economy*

Sung-Hee Jwa

jwa4746@naver.com

Director of ParkChungHee Institute of Development Studies.

Contents

- I. Introduction: Economic Success of Park Chung Hee, A Forgotten History
- II. Denial of Park Chung Hee: Its Logic and Flaws
- III. Towards A New Theory of Economic Development
- IV. A Brief History of Korea's Economic Development Policies: A Reinterpretation
- V. Explanation of Uncomfortable Truths of the Developmental Era
- VI. Concluding Remarks: Key Features of Park Chung Hee's Political-Economy Leadership

Abstract

This paper attempts to dispel the myths about Korea's development policies and achievements during the developmental era led by the late President Park Chung Hee (hereafter Park), and to learn about his political economy leadership, which made the Korean economic miracle possible. As many of his development policies were non-orthodox, mainstream economics and political science academia and the opposition political circles have heavily criticized his political economy regime. Therefore, the paper introduces *a new general theory of economic development* to serve as an analytical basis for objectively reevaluating Park's policies and achievements. The new theory states that the *economic discrimination* policy of "rewarding high performance and penalizing low performance" is necessary for economic development, while *egalitarianism*, disregarding high performance, is sufficient for economic stagnation. The paper then reinterprets Korea's development history over the last 60 years by highlighting that Korea's Han-river miracle was led by Park's firm adherence to the economic discrimination principle, while the current economic growth slowdown is due to the egalitarian policies rewarding the low performance. The paper then explains how Park succeeded with non-traditional approaches. Finally, the paper concludes that Park made the Korean economic miracle possible by implementing "economic discrimination" policies via adopting "economization of politics" under authoritarian democracy and thereby achieving "corporate-led growth" under the ideology of a capitalist corporate economy.

Key words: Economic development, Economic discrimination, Egalitarianism,
Economization of politics, Corporate-led growth.

* This paper was originally written under the title "Success principles of Park Chung Hee" in 2014 as a lecture note for the KDI Graduate School of Public Policy and Management. Since then, some of the ideas therein were incorporated into my later writings, such as Jwa(2017a and 2020). The current version is mainly updated with new thoughts developed since then.

I. Introduction: Economic Success of Park Chung Hee, A Forgotten History

Forty years have elapsed since the Park Chung Hee era of the Korean economic miracle went into oblivion in 1979. Since then, in Korea, most of economics, as well as political science academia and professions, have mainly repudiated or denied his success history. In addition, the political circle has been involved in ideological debates for or against him without any serious efforts to evaluate his era and achievements objectively. More interestingly, it is difficult to deny that the repudiation of Park has so far been regarded even as a mission for the so-called Korea's 'democratic intellectuals'. It is also hard to deny that in Korea, Park Chung Hee's success and its principles, whether they exist or not, have been reduced to subjects not worthwhile to learn from but that need to be overcome.

However, amid this hostile domestic atmosphere, in recent years, there has been much ado internationally about Park's success: many developing economies have been busy understanding and learning about Korea's Han-river miracle, and in response, domestic research organizations and scholars have begun to make an effort to propagate the knowhow of Park's successful economic policies. However, the reality is that not many understand the true nature of Park's success strategy and policy paradigm, if any. Furthermore, it is also true that while Korea's Overseas Support Programs have been spending a lot of human as well as physical resources under the "Knowledge-Sharing Project" to share Korea's experiences with the recipient countries, there are not many significant successful examples to be found.

For example, while Korea has made enormous efforts to pass on the knowhow of Korea's successful *Saemaul Undong* (New Village Movement: rural development program) to developing economies, there is not even a single case of sustainable success on the national scale to emulate the Movement. It must be a prerequisite for the successful transfer of Korea's experiences to understand Park's success knowhow and strategy in general as well as behind those individual programs and policies. However, the reality is that almost none is paying serious attention to discovering Park's success factors and strategy. This

may be why it is hard to find many successful emulation examples of the Korean miracle model, only having the outcome become far short of expectations despite the enormous efforts in these overseas support programs.

To my understanding, critics and followers, both seem to be producing a complacent ideological puppet, "Park Chung Hee" based on which the arguments for or against him have been made without much fact-based and objective efforts to discover, and evaluate the essence of his success principle. Critics and followers engage in an *ideological war* without sincere fact-based discussion.

This paper intends to discover Park Chung Hee's economic policy paradigm of successful development, thereby dispelling the misunderstandings about him in Korea as well as abroad. Moreover, the paper discovers valuable lessons for developing economies seeking the answer to 'how to overcome the poverty trap and to take off' as well as for developed economies seeking the answer to 'how to pull themselves out of the low growth trap with worsening distribution'. By doing so, this paper hopes to discover the key features of Park Chung Hee's political economy leadership for economic development and provide a new perspective on the theory and policy of economic development.

This paper proceeds as follows. Chapter II will review the criticisms against the Park's policies and achievements and their logical flaws. Chapter III presents *a new general theory of economic development* to serve as an analytical basis for reevaluating Park's policies and achievements. This theory states the important proposition that the economic discrimination principle and policy of "rewarding high performance and penalizing low performance" or "helping those who help themselves" is a necessary condition for economic development, but egalitarianism disregarding the differences of economic performances is a sufficient condition for economic stagnation. Chapter IV will reinterpret Korea's development policy history over the last 60 years by arguing that Korea's Han-river miracle was led by Park's firm adherence to the economic discrimination principle, while current economic woes are due to the egalitarian policies run counter to economic discrimination. Chapter V will attempt to resolve the criticisms on Korea's achievements under the developmental era by Park's non-traditional approaches. Chapter VI will consolidate the essential features of Park's political economy leadership as "economic discrimination" policies

and institutions by “economization of politics” to promote “corporate-led growth and development”, which can be a key lesson for economic development theory and policy.

II. Denial of Park Chung Hee: Its Logic and Flaws

1. Salient features of the Park Chung Hee success: the uncomfortable truths

To understand the Park Chung Hee era, it is necessary to consider in detail the policies of the time and the economic structure they created. This is because while the macroeconomic indicators in terms of growth and distribution were outstanding at the time, as acknowledged by the World Bank (1993), Park’s impressive economic performance has often been discredited due to so-called *unpleasant structural and non-economic factors* accompanied in the era. Specifically, to truly understand the debate surrounding Park Chung Hee, it is critical to consider the following features—uncomfortable truths—of the Park era:

- 1) Economic growth was achieved under government-led industrial policy regime, which mainstream economics had largely discredited.
- 2) The non-democratic government that was supposed to restrict both political and economic freedom had led economic growth.
- 3) The government’s ‘pro-chaebol’ industrial policy had led to economic concentration and corporate sector imbalances, which were supposed to create various economic imbalances and inequalities.
- 4) Economic development also had led to imbalances in regional development.

The source of confusion with Park Chung Hee is that he had succeeded in economic development through unorthodox or non-textbook policies, such as strong government intervention that often seemed to belittle the role of the market and restrict political as well as economic freedom. While the economic successes of his era can be easily verified through macroeconomic indicators,

the controversy centers on a few particular policies and/or structural features, that are indispensable to or naturally associated with economic development, but ideologically or emotionally unacceptable to his critics. These four salient features above are the primary sources of controversy regarding the Park Chung Hee era.

2. The logic of denying Park Chung Hee

The phenomenon of Park Chung Hee denial runs rampant in Korean society. It permeates into almost all areas of sociopolitical and economic domains, from mainstream-neoclassical and neoliberal economics to political science and politics in general. The four salient features above can show us a glimpse into the reality of Park Chung Hee denial today.

(1) Anti-Park Chung Hee logic of the mainstream and market-centric neoliberal economists

First, mainstream neoclassical economists feel very uneasy with the first feature of government-led economic growth. Mainstream economics has long posited that state-led industrial policy is not economically sensible, thus, challenging to succeed. Yet, the Park Chung Hee regime did what mainstream economics had told them not to do—heavily intervened in the market with industrial policy, such as the Heavy and Chemical Industrialization (HCI) drive—and succeeded. Similarly, the market-centric neoliberal (*laissez-faire*) economists are baffled as well: Park's industrial policy implies the importance of the role of government beyond the market, which, however, is not consistent with their market-centric doctrine and can entail a limitation of economic freedom.

Furthermore, these critics—neoliberal economists, in particular—are also perplexed by the second feature because the authoritarian Park Chung Hee era could not be called an era of economic freedom. Economic development without economic as well as political freedom is a difficult proposition to accept. Predictably, the market-centric neoliberal and mainstream economists struggle to provide a sound explanation for China's remarkable economic growth in recent decades as well. They also find it difficult to accept the third feature

of economic concentration. From their perspective, Park's so-called *pro-chaebol policy* is the source of socio-political and economic problems, such as monopolization. These features are unacceptable for those who believe that Pareto efficiency can be achieved through perfectly competitive and monopoly-free market equilibrium. What is worse to these critics is that Park's pro-chaebol corporate promotion policy seen as anti-small-and-medium-sized(S&MEs) firms from their lens could undermine the growth foundation for S&MEs firms.

Although no mainstream economic theory can explicitly deal with the fourth feature of regional imbalances, mainstream economists tend to view this issue negatively. This may be because, in addition to the lack of theory to deal with imbalances and inequalities, economic development theories in the past were heavily influenced by political ideologies such as Marxism, and had traditionally been supportive of balanced growth.

From the viewpoints of mainstream economics and the market-centric neoliberal camps, Park Chung Hee's success cannot be wholly accepted, even though their denial may vary depending on the theories and ideologies they adhere to. The similar situation of denying Park Chung Hee is also reiterated internationally among those camps, which have quickly dismissed the Korean case as an anomaly to the 'normal' economic development process to which they subscribe. Ultimately, they cannot acknowledge or accept Park Chung Hee's political economy paradigm of economic development as worthwhile to incorporate into the mainstream paradigm because this episode fails to fit their theories, principles, and ideologies. For example, Acemoglu and Robinson (2010) have a hard time understanding the implications of Park's authoritarian political regime for Korea's economic success, while simultaneously holding his growth achievement in high regard. They think Park's authoritarianism is against their *inclusive growth regime* of plural democracy and sufficiently centralized government. Then, one wonders what made the inclusive Korean economic growth miracle possible.

Particularly on industrial policy, Norland and Pack (2002) arrive at an overly negative evaluation of the industrial policies of Japan, Korea, and Taiwan after surveying the wide-ranging literature on those countries' industrial policies. Most

of such literature is based on the neoclassical production function framework, which tends to be pre-emptively against industrial policy. However, Wade (1990 and 2012) has exceptionally been pro-industrial policy. Jwa and Lee (2019 and 2019a) have criticized the typical arguments against Korea's HCI drive policy by the Korea Development Institute (KDI), for example, Yoo (1990), along the line of the general theory of economic development discussed in the following section.

(2) Anti-Park Chung Hee logic of the political scientists and the politics

In the political science and political spheres, where the ideal of democracy is often sanctified, economic success by an anti-democratic or authoritarian regime may be hard to accept. The Park regime began with a military coup and later adopted the non-democratic *Yushin* system.

While some extreme critics denounce any form of political order against Western democracy regardless of their achievements, there are also more compromising critics acknowledging Park's economic achievement to a certain degree. However, even the relatively mild critics do not fully understand the true ramifications of Park's authoritative leadership on economic development, and as a result, fail to assess the Park Chung Hee era in a balanced and objective manner. In addition, they all believe that the imbalance issue of the third and fourth features is at odds with the democratic ideal of equality. Therefore, for those critics that laud indefectible democracy, acknowledging and accepting Park's regime, which naturally runs counter to democratic ideals of liberty and equality, is also as implausible as the camel through the eye of the needle. However, Kim (2004) sees Park's authoritarian *Yushin* regime as an inevitable choice for the success of the Heavy and Chemical industrialization success drive, calling it a double-edged sword.

(3) Anti-Park Chung Hee logic of the leftists

For economists as well as members of the public on the left who esteem egalitarianism as the highest virtue and tend to be pro-government intervention, Park Chung Hee is like a hot potato. They argue that the Park regime has

created a large-corporation-dominating, so-called *chaebol* economy, which disadvantages small and medium-sized firms and led to imbalances in the corporate ecosystem and regional development. Since Park Chung Hee's paradigm has set off economic imbalances and inequalities, he is logically the enemy of the people. On the other hand, the leftist camp believes that a bigger government is desirable because the government ought to create a more egalitarian economy by redistributing wealth and regulating large corporations. From this perspective, Park's government-led industrial policy is something the leftists cannot reject entirely.

Thus, we often hear some leftist economists defend Park's industrial policy. Nevertheless, they do not appear to attempt to explain how and why industrial policy—deemed to fail from the perspective of mainstream and market-centric economics and has not always been successful—was very successful under Park's regime. They stop short at simply arguing that the government, not the market, is important. For example, Professor Ha-Joon Chang at Cambridge University, who often acknowledges Park's industrial policy, seems to belong to this camp.

3. Flaws of anti-Park Chung Hee logic

Much of the anti-Park logic reviewed above may seem logically insurmountable at first glance. However, it is essential to note that each critic evaluates Park's policies or outcomes through his/her own dogmatized standards. Therefore, a more fundamental question must be addressed; whether their arguments are truly fact-based, whether their standards—theories or ideologies to which these critics adhere—are indisputably correct, and whether those standards, if followed, would ultimately lead to economic development. If the answers are otherwise, their evaluations of Park Chung Hee cannot be correct, only becoming a dogmatic judgment, which would then inevitably fall victim to self-complacency.

(1) Laissez-faire, free market and economic development

According to historical observations, sustainable economic growth and

development is a relatively new phenomenon, that only began with about the Industrial Revolution 200 years ago. Humankind, until then, had lived long in poverty, caught in the *Malthusian trap*. From the hunter-gatherer era when specialization and exchange economy was in embryo, to the Industrial Revolution, humans lived under a market exchange economy. Still, they barely met subsistence levels of food and wealth, often engulfed by the Malthusian trap. Only after the industrial revolution, did humans begin to enjoy the sustained growth of income, but they did not manage to do so evenly. One relevant question may be why humans had lived so poorly without development for long under the exchange economy. Where had the market forces gone astray?

One answer may be that market alone is probably not enough to pull the economic development. Moreover, most of the now-developed Western countries had resorted to government industrial policies for economic take-off when their economies were transforming during the Industrial Revolution (Chang, 2002). Similarly, the now emerging economies that attained astonishing economic growth in the 20th century were, in fact, less market-centric, and they achieved economic development mainly through government-led industrial policies.

It is hard to deny that virtually all nations today —with the exception of North Korea— have adopted some form of a capitalist market economy. However, among more than 200 nations of the capitalist market economy, only about a quarter have achieved per capita income above US \$10,000 and are living above the subsistence level. The remaining three-quarters are still struggling to make ends meet. Ironically, market economies are spreading all over the place, they seem less effective at helping solve the poverty problems than expected. There seem to be several loopholes in the views of mainstream economics and market-centric neoliberalism that must be addressed.

The fundamental institutions of a free-market economy are economic freedom and property rights protection. Critics argue that the government should only play a limited role of providing such an institutional framework and avoiding direct involvement in the market through government industrial policy. However, as noted before, most of the economies that have achieved substantial economic growth are the countries that have emphasized the importance of industrial policy by playing down the role of a *laissez-faire* market. For instance, how much

economic freedom does China allow its people? No one can argue that China's growth—that had been above 9% for the past 30 years—had been achieved under a free market economy. It is interesting to observe that even today, while many of the advanced economies at a global forum explicitly argue against government involvement in the market, they, in fact, covertly engage in industrial policies at home. Market-centric neoliberals must be able to explain such observations.

The free market, laissez-faire economic theory seems inadequate to provide satisfactory explanations for the above observations. Interestingly, economics has earned the Nobel Prize as a science to study the 'optimal allocations of the finite resource and wealth', which can be appropriately called *allocative economics*. However, allocative economics has unfortunately become too abstract and technical to be a social science and is now losing touch with reality. The field of economic theory as the 'principle of new resource and wealth creation'—in other words, *development economics*—is now almost absent, overshadowed by abstract allocative economics. Ironically, a theoretical market—a perfectly competitive market—has become so idealized and even dogmatized. Hence, the theory has not been so much effective when offering practical economic growth and development solutions that can eradicate poverty and hunger. The free market and laissez-faire economics have difficulty coping with the complex development problems of the real economy. Although the freedom can be of such a precious value beyond comparison like an air for living, it alone may not necessarily guarantee economic development. It seems unclear if a free market is even a necessary, let alone a sufficient, condition for economic development, given that a perfectly free market is no different from a utopian nirvana. One may now understand why market-centric mainstream and neoliberals have difficulty understanding Park Chung Hee.

(2) Economically egalitarian democracy and economic development

Today, the notion of democracy has become sanctified as an absolute virtue. As a result, the word 'democratic' is an increasingly popular term used as a prefix or suffix to describe key economic issues of today's Korea. So Park Chung Hee's economic achievement is naturally downgraded because that

happened under the incomplete democracy.

However, the reality is the opposite: Not many of the countries that embraced both market economy principles and Western democracy since World War II have become economically successful. This is not grossly exaggerated! Can anyone label the countries that have achieved visible economic growth in the past centuries as genuinely democratic? Does anyone agree that the economies of China, Singapore, Taiwan, and Korea were successful thanks to democracy in their developmental era?¹⁾ It should also be remembered that the economic growth process of the now-advanced Western countries in the 19th century was not carried out under the same democratic order as today's democracy. Nor are these economies all now under the most advanced democracy as dynamic and equitably growing as a role model for other developing nations. It appears that democracy and market economy or economic development have difficulty coexisting synergistically. Francis Fukuyama argued that a combination of democracy and free market capitalism is the end of history, but the argument was a grossly hasty conclusion.²⁾

Then, one may ask particularly why democracy and the market economy or economic development cannot become good friends. First, it is essential to realize that the two concepts are based on different principles. While liberty and equality are the core principles of liberal democracy, economic inequality is the basic principle of a market economy. In other words, markets are the *economically motivational discriminators*, which promote economic development by distributing rewards according to economic achievement, as will be further elaborated later. Thus, if liberal democracy pursues economic equality beyond political equality, then such an egalitarian democracy, the market economy, and, ultimately, economic development cannot coexist. That is, egalitarian democracy may become an obstacle to economic growth and

1) One may argue the case of Hong Kong as a counter-example. However, the Hong-Kong is a replica of Britain's, making it difficult to serve as a model of economic development for the latecomer economies.

2) Francis Fukuyama has argued in his book, *The End of History and the Last Man* (1992) that the progression of human history as a struggle between ideologies is mainly at the end, with the world setting on liberal democracy and free market capitalism. Yet we see daily news that democracies, let alone free market capitalism, are continuing to clash and evolve.

development. One can now see why the people's democracies under communism/socialism seeking economic equality all collapsed, and why China, which prioritized market economy reform over democratic political reform, is growing faster than Russia and former Eastern Bloc economies, which reformed in the reversed order.³⁾

It is hard to deny that the idea of 'democracy above all else' advocated by some political scientists, political economists, and politicians can be an obstacle to economic development, especially in the early stages of development, unless the side effects of economic egalitarianism are thoroughly looked out. Consequently, this may shed some light on how Park's authoritarian regime could be compatible with economic development at the time. Although critics are free to judge Park Chung Hee or economic development issues by their own standards, it is crucial to remember that the argument that democratization leads to economic development may not always be valid.

(3) Growth of corporations, economic concentration and economic development

A capitalist economy is a *corporate economy* that evolves through the new invention of the social technology of the private limited-liability joint-stock company system, as will be elaborated later. The growth of such modern corporations has driven the development of a capitalist economy. A robust positive correlation can be found among the countries' per capita GDP, the number of listed companies on the Fortune 500 or/and 1000 companies, and the degree of corporate size concentration (economic concentration).

3) Here relevant is the literature about the order of economic liberalization once popular a few decades ago. It has been argued that the slow-adjusting sectors should be reformed or liberalized earlier than the fast-adjusting sectors to maintain the balance or stability of structural adjustments (McKinnon, 1993). From this perspective, for the transition economies, the political sector may be the fast-adjusting sector that can turn to the one-person, one-vote democracy overnight, at least in formality. In contrast, the economic sector will be very slow to adjust to the new market economy system. This implies economic reform had better come before the political reform to minimize the adjustment costs. From this perspective, one can argue China follows an optimal sequence of liberalization reform compared to other countries. Now one may understand why India, which had been for long under a socialist economic system as well as political democracy, had been economically stagnant all along with the post-War era until recently.

Theoretically, there is little chance for economic development without corporate growth, as will be attested below. Also, it is difficult to find cases in which economies became successful without the accompanying concentration of economic power in the growing corporations. Critics may pick Taiwan as a counterexample, but it is not an appropriate example.⁴⁾

(4) Balanced and egalitarian economy and economic development

It is rare to find cases in which economic development is achieved from a solely market-based economy. However, it is also difficult for an economy to grow without a properly functioning market. As explained below, a market is a performance-based reward system with the resulting economic inequality as its means of motivation. In other words, it differentiates compensations based on economic efforts and performances and thereby motivates people to exert their maximum economic efforts. It is obvious that an egalitarian society, in which everyone is equally rewarded regardless of efforts and performances and therefore demotivated, cannot spur economic growth. This is because an egalitarian society inevitably faces what amounts to sabotage on a national scale—a *do-nothing* movement. Thus, one can now understand that economic egalitarianism caused the collapse of the socialist planned economy that sought

4) At the early stage of economic development, Taiwan's Chinese Nationalists (the Kuomintang), which had moved down from the mainland, pursued the Revolutionary Principles advocated by Sun Wen, the first president and founding father of the Republic of China. He believed in the people's economic system designed to achieve economic equality and prevent private monopolies and cartels. The Nationalist government nationalized large-scale heavy and chemical industries (HCI) and other key industries, leaving labor-intensive small and medium business sectors for private capital. These S&MEs then gradually became subcontracting companies for big firms in Japan in the early stage of development and later for the US firms. It also seems that the Nationalist government, which needed to solidify its control in Taiwan, did not welcome the emergence of locally held private conglomerates. Thus, Taiwan's SME-centered business ecosystem was not spontaneous but artificial. The S&ME industry, however, was not sufficient to play a locomotive role in Taiwan's economic take-off, and the economic growth started to decline during the 1980s. However, the new ruling political power of local origin in the 1980s encouraged large private conglomerates to emerge. As a result, Taiwan experienced rapid economic growth and industrialization, with the growth of its information and communication technology industry, which plays a vital role in the global economy. Taiwan's ten largest manufacturers recorded a total gross of 14.5% of GDP in 2000, which jumped to 71.3% in 2011.

absolute equality. In contrast, economic growth of a capitalist economy became possible thanks to the market's economic discrimination function.

Fundamentally, economic development is a transition from an agrarian society where everyone is poor and equal into an industrial as well as a knowledge-based society where wealth and wealthy people are unevenly created. Thus, unequal development is fundamentally embedded in the process of economic development. Equal economic development is an oxymoron because economic development means prosperity for all, but to an unequal degree. Therefore, the issue of imbalance between the large-business and small-business sectors and regional imbalances cannot be the basis of the counter-arguments against the success of the Park Chung Hee regime as they inherently lack logical and practical grounds.

III. Towards A New General Theory of Economic Development

I have argued that the existing economic theories or political discourses are inadequate in explaining general economic development processes, let alone the reason for Park's success. Therefore, they cannot serve as a sound basis to argue for or against Park's economic achievement either. Furthermore, Park's economic policies had not faithfully followed textbook economics. For an objective evaluation of Park's achievement, it seems necessary to rewrite the economic development theory. Here is recapitulated a new economic development theory.⁵⁾

Economic development is a process of replication and dissemination of the "successful cultural evolutionary gene". In this process, individuals become economically successful by replicating their prosperous neighbor's knowhow of economic success. The process is not limited to individuals, as it can also explain the development process of a corporation, economy, and civilization. We believe a developmental process is an intentional and conscious process

5) For a more detailed exposition of the new theory and applications for the Korean economy, refer to Jwa (2017, 2017a, 2018, 2020), and for its early origins, see Jwa and Yoon (2004, 2004a, and 2011).

of free-riding on others' successful knowhow. In this way, a society that supports and encourages successful neighbors as the source of knowhow can develop. In contrast, a society that lacks or disparages successful neighbors will remain economically stagnant. Thus, the prosperity of the capitalist economic system owes much to the fact of life that "successful neighbors will lead others to be successful". Prosperous neighbors are good for the prosperity of others. In contrast, a socialist economic system, as envisioned by Karl Marx, sees it as "individuals fall to ruin from exploitation by successful neighbors". Socialism was destined to collapse.

According to this interpretation of economic development based on the complexity science, a development process is an order transformation of economic complexity, just like the movement from wagon economy to train economy, to automobile economy, to airplane economy, and to spaceship economy. This is fundamentally different from the linear transformation of the 10-wagon economy to the 100-wagon economy as described in the neoclassical growth theory.

The market in the real world is the economically motivating discriminator, which rewards economic agents according to their economic achievements, motivating others to follow suit and inducing economic development. Economic agents with purchasing power try to reward the best providers of goods and services, thereby creating economic inequalities among them and economic concentration to the best suitable companies and individuals, and motivating and encouraging others to follow. Without the selection of high-performing individuals and companies who help themselves and the resulting concentration of economic power to them, economic development cannot occur. Thus, the market turns out to be the source of economic inequality, but, at the same time, the market's discriminatory function is the impetus for economic growth and development. As a result, economic inequalities, economic concentrations, regional imbalances, etc., are bound to happen in economic development. However, to what extent those side effects will manifest may depend on the complex institutional characteristics of the specific economy, which is a subject beyond the scope of this paper.

However, a market economy is destined to be trapped in *developmental failure*

despite its discriminatory function. The market fails to solve the free-replication (free-riding) problem in the development process due to high transaction costs incurred for the market trading of “successful knowhow”. The commodity of “knowhow” is too elusive for its terms of trade to be transparently delineated for public trading in the open market. Since no one fully rewards the successful neighbor while everyone free-rides, there inevitably takes place a developmental failure because the free-riding will eventually deplete the stock of successful neighbors by demotivating them, just like the free-riding drives out the bus company.

The capitalist economy invented the limited-liability joint-stock company in the early stage of the industrial revolution, which has been supplementing the market’s developmental failure and, ever since then, leading economic development all along. The corporate firm can avoid or save transaction costs due to the structure of the vertical command system, unlike the market mechanism. Therefore, it can help solve or alleviate the market failure by internalizing the knowhow sharing (exchanging) activities and eventually help expand the extent of the market. The corporate firm thus arises as the critical locomotive for the economic development of the capitalist economy ever since its inception. However, corporations alone cannot completely overcome the issue of *free-riding* because they are also subject to the free-riding by the late coming followers and, therefore, hardly compensated sufficiently by the market. This is why successful corporations appear only sporadically, never lasting forever. Similarly, superior civilization and economy can never last forever, just like the bus company going bankrupt with free-riding.

To correct such a free-riding problem, the government can be an essential supplement to the market because it can promote the growth of corporations and individuals by allowing those economic players who help themselves to be sufficiently compensated by building various market institutions. For economic development to occur, the government should perform the role of economically motivating discriminator complementing the market.

However, in most modern democracies, the parliament plays a significant role in legalizing government policies and introducing economic institutions. Thus, politics can play a crucial role in providing socioeconomic institutions

through which the market can adequately perform its discriminating functions, and individuals' efforts and achievements are fairly rewarded. What would happen if politics and the government administration outrightly opposed the economically differentiated performance-based incentive system and introduced economically egalitarian institutions, thereby ignoring the differences in individual achievements? The market's discriminatory function would stop working, and the people devoid of incentive would stop working—national sabotage—eventually leading to economic degeneration. In this light, it is not difficult to see that an economically egalitarian system, which emerges under the populist democracy, a side effect of the one-person, one-vote system of today's democracy, is the cause of prolonged economic stagnation. We have often witnessed these phenomena among many advanced nations and the late-coming economies now under such democratic variants as social democracy.

The reward for an economically good deed is a crucial precondition for economic growth and development. Economic development can only be possible when the market, corporations, and the government (the administration cum the politics) recognize outstanding businesses, entrepreneurs, and economic agents, by building institutions to reward them for their social contributions with various means. The general theory of economic development (Jwa, 2017) calls those three institutions markets, corporations, and government *the holy trinity* of capitalist economic development. The outstanding people and corporations are the sources of the economy's *success-knowhow* on which others often free ride and, therefore, need to be compensated for the potential loss incurred from a free rider problem. Therefore, only the countries that have established the economic institutions and policies to reward appropriately the economic agents who help themselves based on the principle of “never fail to reward a merit or let a fault go unpunished” will be able to spur economic growth.

To recapitulate, the main principles of economic development are as follows:

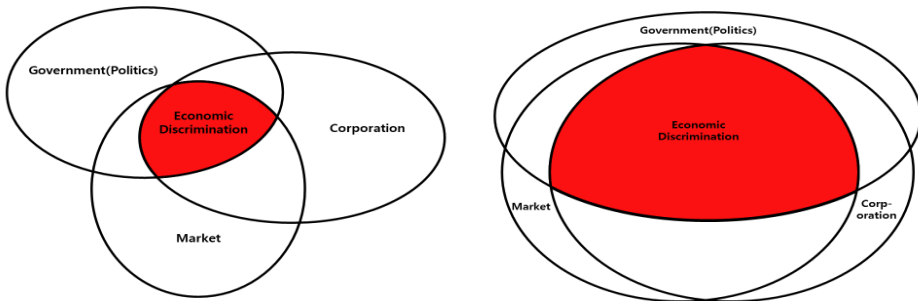
- 1) *Economic discrimination* is necessary for economic development, while *economic egalitarianism* is a sufficient condition for economic stagnation. ‘Economic discrimination’ means to treat economic differences differently,

while ‘economic egalitarianism’ means to treat economic differences equally.

- 2) *Economization of politics* is a necessary condition for economic development, while *politicization of economy* is a sufficient condition for economic stagnation. ‘Economization of politics’ refers to implementing the principle of economic discrimination without political consideration for economic egalitarianism. At the same time, the ‘politicization of economy’ is to give up the principle of economic discrimination under political consideration for economic egalitarianism.
- 3) Finally, the *holy trinity of economic development*, the markets, corporations and the government are necessary for development by implementing economic discrimination institutions.

<Figure 1> summarizes the whole idea of the general theory of economic development. As the trinity of development gets friendlier to economic discrimination, the chance to grow and develop increases. That is, as the set of union of economic discrimination gets larger as in the figure, the economy will have a better chance to grow and develop. An economic development-seeking government should induce the markets and corporations to pull the growth and development with *economic discrimination-friendly* institutions and policies.

<Figure 1> Exposition of General Theory of Economic Development



<Figure A> Government is less friendly to economic discrimination.

<Figure B> Government is more friendly to economic discrimination.

IV. A Brief History of Korea's Economic Development Policies: A Reinterpretation

1. Critical success factor under Park's regime: Government-led Economic discrimination for corporate growth.

Korea's economic development era was a dynamic period in which those who helped themselves and became successful were compensated based on the principle of the dispensation of justice, "never fail to reward a merit or let a fault go unpunished", and thereby the motivation for growth was maximized. This led to a mass creation of successful corporations and people where the *free-riders* who followed the successful neighbors became successful. In this process, economic concentration on competitive corporations and regions with comparative advantages and the resulting imbalances were created. During this era, Korea introduced and implemented economic institutions and policies based on economic discrimination favoring those who help themselves.

Examples of such motivational institutions and policies:

- 1) First of all, it is worth noting Park Chung Hee's practical approach when Park as the leader of the Coup, decided to release about a dozen business leaders who were arrested under the charge of tax evasion as well as corruption and somewhat political. He released them despite strong opposition by the junior Coup leaders, out of a conviction that these proven business leaders would be instrumental for "economic development" which was the second credo of the Coup. However, this action went against the first credo, "clean up the corruption". Then, they were allowed to participate in the economic development drive on the condition that they would use all or a substantial amount of their profit earnings to make up for the evaded tax and finance economic development projects. Such motivational incentives for economic development allowed all business communities to unite under the ideology of "the business for national prosperity" beyond private profits.
- 2) In the export promotion policy, the high-performing exporters were favored

and given more credit. For 15 years, “Export contests” annually ranked all exporters based on their yearly export values. The government and banks economically discriminated them in terms of tax incentives, bank credit, and other financial support based on their performance. Thereby the so-called *export drive* took off, and every able young entrepreneur was motivated to rush into the export business because being a successful exporter became a synonym for being successful not only in business but also in life.

- 3) In the S&ME promotion policy, high-export-performing S&MEs were given more support and the chance to take over the less-performing S&MEs. This policy, along with export promotion and the heavy and chemical industry (HCI) promotion policies, helped the SM&Es to grow into world-class large corporations within two decades.
- 4) The ‘8·3 Emergency Economic Measures’ removing the curb-market debts of the corporate sector saved the Korean economy that was chronically burdened by high-interest debt. Korea’s corporate sector faced serious financial difficulties in 1971~72 due to the first oil shock as well as large curb-market borrowings with extremely high interest rates.⁶⁾ In response to an emergency relief call from the private sector, President Park Chung Hee immediately issued the so-called 8·3 Economic Emergency Measure on August 3, 1972. This measure declared that all corporate debts from the curb-market would be frozen for three years and then be redeemed for five years based on equal installment for every six months with a monthly interest rate of 1.35 %. Through this, the corporate sector that had been struggling with large curb-market debts quickly recovered from the oil-shock and rode on the growth track to the large corporations, called Chaebol. Korea’s rapid growth amid the worldwide stagflation during 1970s was truly an exceptional case.
- 5) During the HCI drive of 1970s, only the firms which could provide the seed money (25% of the required capital) were allowed to enter the HCI

6) At that time, it was reported that roughly over 30% of corporate sector debts were borrowed from the curb-market with interest rates exceeding 30% per annum. It was also reported that the overall curb-market interest rate was roughly about 40~50% per annum, higher than the official bank rate by 10~20%.

with 75% of the capital supplied by the government-led bank loans. Thereby, only the superstar exporters who had been exposed to the global competition and learned the business management knowhow entered the HCI sector, which helped increase the probability of the policy success. This economically discriminatory treatment for high-performing corporations seems to be, at least, the necessary condition for the success of the industrial policy, even though not a sufficient condition. Those HCI corporations have led the Korea's industrial and economic development ever since the 1980s.

- 6) In the *Saemaul Undong* (New Village Movement) of the 1970s aimed at revitalizing the rural economy, villages' and farm factories' performances were ranked every round based on the achievements of the specific projects, and the government supported only the high-rank performers.⁷⁾ Villages were treated exactly as private corporate firms subject to keen performance competition. Low performers were left behind without support. The *Saemaul* movement is the culmination of President Park's economic discrimination strategy based on the dispensation of justice, "never fail to reward a merit or let a fault go unpunished", and "help those who help themselves". While this movement was mainly intended as a social reform policy to change the development-unfriendly, non-self-help mindset of people in the rural sector, it turned out to also work as a development policy contributing significantly to the increase of farm sector incomes. Thereby, this became a rare instance in which both economic development and social reform goals were achieved at once, like killing two birds with one stone, mainly thanks to the economic discrimination policy. A critical implication for socio-economic policy, in general, is that even social policy can be transformed to work as development policy, thereby becoming more sustainable, if it adopts the economic discrimination policy and creates an incentive to grow on the part of the beneficiaries.⁸⁾

7) See Jwa (2018) for details of the *Saemaul Undong*.

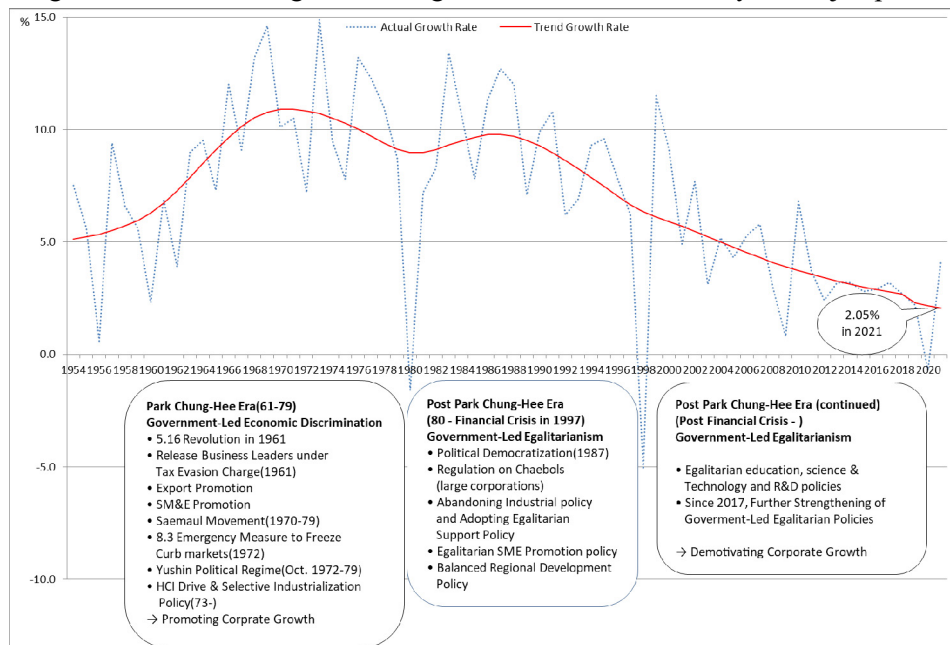
8) In supporting disabled veterans, President Park declared that he would favor only those relief recipients who improved their situation in previous years. This was a sequel to the *Saemaul* movement.

In short, the success factor of the economic policy of the Park Chung Hee regime is that the government persistently applied discriminatory incentive policies (economic discrimination) that “help[ed] those who help themselves”, which also played a crucial role in embodying the ‘can-do spirit’ among Koreans; corporations, village organizations, and individuals. By selectively rewarding and recognizing the best performers based strictly on their economic performance, the government created a nationwide atmosphere that only those who help themselves can succeed, and this eventually transformed the people’s ideology from that of blaming others to a self-help spirit.

Note that in the end, those policies boil down to promoting corporate growth. This policy regime is seen as none other than a corporate-led growth strategy. Korea’s economic growth miracle under Park Chung Hee was led by the growth of the corporate sector under government-led economic discrimination. This is perfectly consistent with the *holy trinity theory of development*.

As a result, Korea achieved the fastest and shared economic growth in the world during the development era, 1960~1990 (World Bank, 1993). By encouraging the export companies to reinvest most of their export earnings in the domestic market, the government helped increase the demand for the S&MEs and the service sector and create more jobs, thereby making the virtuous cycle from the export to the domestic sectors. Therefore, the Korean economy under the Park regime could enjoy the shared growth between the export and domestic markets, manufacturing and service industries, and large corporations and SM&E sectors. Active export and corporate investment promotion with government support was the key driver for the high and shared growth. <Figure 2> illustrates a brief history of Korea’s remarkable growth and related development policies. According to this, during the development era, Korea recorded an annual economic growth of 8~9% and continued for three decades, a phenomenon known as the “Miracle of the Han River”. However, Korea saw its potential growth rate steadily decrease since the late 1980s, dwindling to the 1~2% range today.

<Figure 2> Korea's long-term real growth trend and summary of major policies



Note: Trend is calculated by Hodrick-Prescott filter. Data source: The Bank of Korea.

2. Main cause of the economic decline since the late 1980s: Economic egalitarianism

What is the cause of the decline in potential growth trend? As is generally known, the subsequent government following the Park Chung Hee regime opened an era of “reversing the Park Chung Hee paradigm” from 1980. This new economic policy paradigm created various regulations or support policies to promote a so-called *fairer and more balanced economy*. By blaming Park’s regime for economic problems against a fair and balanced economy, such as the uncomfortable truths discussed above, subsequent governments gradually turned to the egalitarian economic policy regime. The pinnacle of the “reverse” was the Amendment of Article 119 in the Constitution in 1987, which introduced the socialist ideology of “economic democracy”, supposedly seeking equality of outcome by democratizing the economy (politicization of economy).

The cause of the economic slowdown and fall in dynamism and competitiveness that followed in the next near-40 years can be attributed to

the adoption of an egalitarian policy regime. The people who were once filled with the 'can-do' spirit during the development era have degenerated into blaming others. The egalitarian socioeconomic system disparaged the achievements of successful neighbors in the name of economic democratization and equality and eroded the 'can-do' spirit of the Korean people. As a result, the spirit of 'blaming others' became rampant among the public, who believed that their failures were due to others—the large corporations, the rich, and the metropolitan cities— while the politics reduced increasingly to populist democracy, aggravating the situation.

The new regime in the mid-and late-1980s began to dismantle the economic discrimination role of the government and regulate the market's economic discrimination function, thereby promoting economic egalitarianism and a balanced development ideology that hurt economic motivation for progress. Examples of such policies are as follows:

- 1) Corporate policy in which large corporations were subject to countless regulations but small- and medium-sized firms were given support evenly regardless of economic performance has disincentivized them from growing bigger.
- 2) Agricultural support policy in which only poor or less-performing farmers were given support has demotivated farmers, keeping them stagnant.
- 3) Ideology for "corporate management democracy" in which the labor unions were given an increasingly strong power because they were supposed to be the 'weak' has helped Korea's labor unions now grow to one of the most militant labor unions in the world.
- 4) Balanced regional development policy that disfavored the growth of the metropolitan region (Seoul and Gyeonggi province) and favored all the other areas uniformly has been leveling down the regional development of Korea.
- 5) University and science technology support policies, in which scholars and universities were supported evenly regardless of research performances, have inflicted a reverse discrimination against superior scholars and schools.
- 6) An 'egalitarian' education policy disfavored good schools and students

and led to the downward standardization of academic performances; As a result, it led to the collapse of public education and the burgeoning of private tutoring businesses. It also fixated on the inheritance of poverty to the next generation.⁹⁾

Ever since the late 1980s, the economic policy paradigm of Korea has sought to *equalize* economic outcomes in the name of economic fairness and justice at the expense of economic excellence. This egalitarian policy paradigm had been the root cause of the declining trend of Korean economic dynamism and the polarization of the Korean economy. In particular, many of the so-called *economic development policies* implemented in the post-1980s era have degenerated into social subsidizing policies. These policies uniformly supported the policy objects, regardless of outcomes, eliminating 'economic growth motive' and effectively abandoning an economic policy paradigm to induce growth motivation through economic discrimination. Thus, the decline in economic growth was inescapable.

On the other hand, export manufacturers began diverting their earnings away from domestic investment due to heavy domestic investment regulations. The virtuous cycle from the export-pulled domestic investments established during the developmental era has been disrupted. This eventually led to economic polarizations of various kinds between export and domestic markets, manufacturing and service sectors, and large corporation and SM&E sectors, let alone the loss of jobs. Today, Korea's corporate investment regulations have increasingly instigated corporations' overseas investment by cutting off corporate incentives to invest in the domestic market, thereby letting increasingly more job opportunities be lost to the overseas market.

9) Egalitarian education system that reverse-discriminates against talented students would inevitably weaken the public education system and encourages the rise of the private tutoring education market. In the private education market, poor students are relatively excluded from receiving a high-quality expensive education, and there will be no more "rags to riches" stories.

V. Explanation of Uncomfortable Truths of the Developmental Era

1. Politics and Economy: how is economic development possible under an authoritarian regime?

Today's democratic politics have morphed into egalitarian democracy or populist politics. However, it is worth noting that social democracy is a widespread phenomenon in world politics, irrespective of the level of economic development. This is fundamentally unavoidable in democracy: in a parliament-centered policymaking system in which the general election for selecting lawmakers is based on the one-person, one-vote system and economic policy is also decided by votes in the parliament, egalitarian economic policy does inevitably prevail. As a result, an economic development policy that must pursue economic excellence has little place in this system. Pro-market democracy, which tolerates economic discrimination, can serve as fertile grounds for economic development, but egalitarian economic policy or populist democracy can be an obstacle to economic development. According to the general theory of economic development, it is critical in a democracy to economize politics for economic development. Therefore, authoritarian politics could provide a better environment for the unpopular policy regime of economic discrimination via "economization of politics by centralizing the political powers" enough for resource mobilization. It is interesting to find that while Acemoglu and Robinson (2012) criticize Park's authoritarian politics, they argue at the same time that a "sufficiently centralized government" is necessary for economic development together with plural democracy. Here, one may wonder exactly how Park's authoritarian politics and their "sufficiently centralized government" differ.

During the development era, Park Chung Hee firmly maintained an "economization of politics" regime by adopting authoritarian democracy. His authoritarian government was able to safeguard economic policy issues from political manipulation by preventing political considerations from spilling over to economic issues, thereby minimizing the adverse effects of democracy. Therefore, economic development could be compatible with an authoritarian

government. Had today's populist politics existed during the development era, discriminatory economic policy would not have been possible. On the other hand, the egalitarian policy regime since the late 1980s has led to the reverse: economic policies became politicized, and the government's economic policies have been reduced to egalitarian social policies in which everyone takes equal shares. Political scientists and politicians may negatively judge Park's 5·16 Coup and his *Yushin* (Reform) Regime based on their ideological compass—western democracy. However, they must also recognize that sustainable economic development could have been possible only through Park's politically authoritarian regime. Democracy is not an all-encompassing solution, especially regarding economic development. Therefore, it may be wise to adopt different types of democracy depending on the state's primary economic goals. Park adapted Korean democracy to best serve the nation's modernization and fulfilled his promises.

2. How was development possible under government intervention and limited economic freedom?

The success of the Park Chung Hee era is like the Achilles' heel for neoliberal economists because it was successful amid bureaucratic intervention and some restrictions on economic freedom. However, suppose one accepts the proposition that economic freedom alone cannot achieve economic development and the government's economic discrimination policy is also required. In that case, it is not difficult to understand that freedom may not be a direct agent for economic growth. Instead, the direct motive for economic growth is the discriminatory pressure of the market, which creates economic differences and inequalities through competition.

Economic freedom is indispensable for economic growth and development not only because it provides an incentive to own through property right but also because it creates economic inequality pressure that can strengthen the motive not to lag behind. Note, however, that loss framing is more powerful than the gain framing in driving human behavior.¹⁰⁾ Thus, it is essential to

10) See Tversky and Kahneman (1981) for this point.

keep in mind that the fundamental driving force of economic growth and development is the human motive not to lag behind responding to the competitive pressure of economic discrimination based on performance.

A society that is said to be “economically free” but refuses to acknowledge differences in economic performance by adopting an egalitarian industrial-regional policy as well as strong redistribution policies, resembles a socialist country killing the incentive to grow.

Therefore, Park’s success under strong government intervention was possible because the government pursued economic discrimination policy based on the mandate of “never fail to reward a merit or let a fault go unpunished”, creating keen competition among people and corporations. This helped generate a self-help spirit and instead reduced economic differences and inequalities. In short, this can be called “government-led economic discrimination”, which, as a synonym for “government-led competition”, is necessary for igniting economic development.

3. Chaebol is the outcome of the successful S&ME-promotion policy

Both Park Chung Hee’s supporters and his critics often characterize his economic policy as conglomerate-friendly. However, this is a misinterpretation resulting from the lack of a deep understanding of the economic reality at the time. A correct interpretation may be to refer to Park’s policy as an S&ME-promotion policy, which successfully induced the emergence of competitive chaebols. One should understand that the epitome of the Park Chung Hee paradigm was the S&ME promotion policy, which transformed small- and medium-sized businesses in the 1940s, 1950s, and 1960s into large global companies 20 years later.¹¹⁾

11) We must not forget that Korea had only small and medium-sized businesses in the 1940s~1960s, which have grown to become premier global companies today. Some notable examples, Samsung began as a small shop exporting agricultural and fishery products in 1939; Hyundai Motor Service (1946) and Hyundai Construction (1947), which formed the basis of the Hyundai Group, had humble beginnings in Seoul; LG started as a small factory manufacturing facial cream and toothpaste in 1947; the now-defunct Daewoo Group began as a small exporting venture that started with a mere 5 million won (about US\$ 5000 in current dollars) in 1967; SK group has its roots in a small textile manufacturing company making lining in 1953.

For those fledgling export businesses that were proven to be successful in the market, the Park government rewarded them with favorable tax incentives and financial and foreign exchange policies and allowed them merger and acquisition activities to take over failed businesses, thereby inducing them to grow bigger in a short period. Park's economic discrimination policy to support the better performing S&MEs was the main driving force to maximize the incentive to grow on the part of the S&MEs. He never wasted resources including invaluable foreign reserves trying to support incompetent export companies politically. Do not forget he had been the Market and the God who help only those who help themselves. The success of Korean chaebols is vivid evidence for how the S&ME support policy can be successful with economic discrimination incentive policy but not for any corruption between interlocked politics and business as the critics might want to believe so.

However, under the egalitarian policy regime in the 30 years since, the growth incentive for the S&ME sector was practically eliminated by the egalitarian support policy, which rewarded less competitive S&MEs rather than the growing ones, thereby creating an S&ME paradise devoid of competition to grow. Even the large corporations have not dared to grow further, because the growth would only make them subject to special regulations under the 30 largest conglomerate regulation system.

4. The HCI drive policy is not a failure but the cornerstone of the economic miracle

Park's heavy and chemical industry (HCI) promotion policy is another thorny issue for pro-market economists because the policy, which the pro-market camp believed would fail, turned out to be successful. However, the Korean government and the World Bank in the early 1980s quickly dismissed it as a failed policy. Likewise, some pro-market economists deliberately ignore the success of HCI, while those in the leftist camp who happen to acknowledge the success have little understanding of why it was successful. Ironically enough, however, HCI is leading the Korean economy today. How to resolve this fallacy?

According to our new economic development theory, industrial policy is more

likely to succeed if the economic discrimination principle is applied. Government-led industrial policy based on the economic discrimination principle, which can open up more opportunities for successful rather than failing businesses definitely has a higher probability of success. The HCI drive during the development era selectively allowed only those firms that had seed money from exports and, therefore, had corporate management ability and successful knowhow to construct the HCI sector. This ‘selective’ entry permission based on market performance helped minimize the possibility of failure and led to the policy’s success, even though it may not have been a sufficient condition for success.¹²⁾

5. Unbalanced development led to economic miracle via agglomeration effects

Park’s era has always been criticized for unbalanced development. Economic agglomeration of regions and industries is the source of increasing returns and can create external effects that can bring regional and urban development even though unbalanced. Economic development itself is fundamentally lopsided. The concentration of economic power in the better performing regions, corporations, and individuals is the natural process of economic development.

According to the general theory of economic development, the economic discrimination policy regime tends to work for an inclusive, shared and sustainable growth by its motivational function while the economic egalitarian policy regime tends not to work for economic development due to its de-motivational effect. Strictly speaking, so-called *balanced or equal growth and development* is hard to escape from the oxymoron. Thus, a balanced development policy, including the so-called “economic democratization” policy that attempts to decentralize economic concentration and eliminate regional imbalances, is unlikely to awaken the economy for take-off and instead destined to be an obstacle to development.

12) See Jwa and Lee (2019) for a new interpretation of the success factors of Korea’s HCI promotion policy and a suggestion for a market-friendly theory of industrial policy, based on the economic discrimination principle of the general theory of economic development.

VI. Concluding Remarks: Key Features of Park Chung Hee's Political-Economy Leadership

This section will consolidate Park Chung Hee's political-economy leadership as the basis of his economic policy paradigm. How can one define and understand his leadership?

First, one may understand his political leadership by seeking which of the following two paradigms, "economization of politics" and "politicization of economy", would bring economic growth and development. The new perspective of economic development theory and the nature of democracy discussed so far, with the historical experiences of Korean and global economic growth, suggests that only those countries that strictly follow the "economization of politics" paradigm could achieve sustainable development. However, such cases are rare in recent history, maybe because we do not yet know what type of political order is suitable for the economization of politics and how to reform politics towards the new order if it is the case. Implementing a new order may be as challenging as discovering the proper political order in the first place. Some may see the merits of a dictatorship or an authoritarian regime for economic development. In contrast, others may argue for a western democracy for economic growth, but both alternatives seem inconclusive. The correct answer may lie somewhere in the middle. Here, one can easily see the dilemma with Acemoglu and Robinson (2010)'s ambivalent position: suggesting a golden mix of plural democracy and sufficiently centralized government as a political economy model of inclusive growth, but at the same time, heavily criticizing Park Chung Hee's authoritarian *Yushin* political system that helped sufficiently centralize government power for development.

What is clear from these experiences is that it is just as challenging to achieve "economization of politics" under a western democratic system as to find a successful case of economic growth commonly under an authoritarian regime in developing countries. In modern advanced countries, Margaret Thatcher and Ronald Reagan's leadership demonstrates a classic example of the "economization of politics". Similarly, China's Deng Xiaoping and Singapore's Lee Kuan Yew demonstrated similar leadership. It turns out that Park Chung

Hee's political leadership for economizing politics was, in fact, a pioneering precedent for all these leaders. In this regard, from the perspective of national economic development, Park Chung Hee's choice of strategy, "economization of politics", for economic development by being authoritarian, deserves proper credit. Of course, assessing Park's political leadership per se may belong to the domain of politicians and political scientists, but his political economy leadership from the standpoint of development economics needs to be reevaluated.

Secondly, one needs to look at his economic discrimination leadership, which has been ignored in the literature so far. Park's economic discrimination leadership firmly opposed economic democratization, prevented politics from inflicting economic discrimination principles, and firmly carried out the role of the market favoring the better performers and "helping those who help themselves", based on performances. Under this leadership, Korea achieved the world's fastest shared growth from 1960 to 1990 (World Bank, 1993).¹³⁾

His proclamations of "never fail to reward a merit or let a fault go unpunished" and "help those who help themselves" encouraged those people and corporations who were successful and motivated others to join, thereby creating a mass of successful neighbors. Here, one needs to keep in mind that, only because of Park Chung Hee's unique economic discrimination leadership were other factors, such as political authoritarianism, strong government, corporate promotion, export promotion, the HCI drive, the New Village movement, etc., able to contribute to the success. New development theory and historical experiences imply that there is no guarantee of economic success without economic discrimination leadership. Economic discrimination is, in fact, a grand theory of economic development.¹⁴⁾

Thirdly, Park's leadership as an economic thinker has not been much understood, even after witnessing his remarkable economic success. Economics academia has been busy interpreting his policy paradigm from mainstream

13) The record for the fastest-growing economy was recently broken by China; however, Koreans will remember the honor of being the first 'fastest and shared' growth economy in the world's history of economic development.

14) See Jwa (2017 and 2018), and Jwa and Yoon (2004, 2004a, and 2011) for the origins of the economic discrimination theory of development.

thoughts such as market-centric or government-centric perspectives. The market-centric camp evaluates his export-oriented development strategy but undervalues his industrial policies as anti-market intervention, including even the successful heavy and chemical industrialization. By contrast, the pro-government camp considers his heavy and chemical industrialization policy a symbol of industrial development policies. However, from the perspective of the general theory of economic development, he was a fact-based, holistic, and pragmatic leader who viewed the capitalist economy as a corporate-led economy, with little regard for any such dogmatic theories. He firmly believed in “capitalism as a corporate economy” and devoted most of the available resources to promoting corporate growth. Of course, the markets and government can be important promoters of corporate and economic growth but cannot create a complex order-transforming, Schumpeterian development alone without corporate organizations. The holy trinity theory of economic development is, in fact, perfectly consistent with his economic philosophy to make the Korean economic miracle possible.

As a piece of anecdotal evidence, the following conversation from the mid-1970s between President Park Chung Hee and American futurist Herman Kahn, founder of Hudson Institute in the US, may help confirm Park's philosophy of capitalist corporate-led growth.¹⁵⁾

Herman Khan: “Korea's economic growth is simply phenomenal. Mr. President, I understand that you never had the opportunity to study economics, so how could you achieve such an incredible economic miracle without capital accumulation?”

Park Chung Hee: “Of course, I didn't major in economics. Just because an economist knows a lot about economics, that does not mean he is good

15) Yoon Han-chae (2010, pp. 277-278). Although the interview date is not precisely known, this citation seems reliable because the now-deceased author was an intelligence analyst for the Ministry of National Defense at the time and had access to information about the interview with the Blue House, the Korean Presidential residence. Moreover, Dr. Herman Khan, who visited Korea several times upon Park's invitation, published a book (Kahn, 1979), chapter 6 of which emphasized the prominent role of companies in the case of Korea's economic development, even though it did not directly mention the interview. Therefore, this also seems to support the credibility of the contents of the citation.

at the real economy. Just because a banker handles money, that does not mean he owns a *Chaebol* (the nickname for a big corporation in Korea). You need to know that Chaebol corporations, not economists drive the real economy. I utilized them. To instill any illusions in them and make them move, you must first squeeze out the wisdom that will benefit them so that they can run happily.”

Herman Khan: “I have heard that there are many prophets like Confucius, Mencius, and Buddha in the East, but how could a president who was a military man only knowing warfare wring out the wisdom of such a complicated field of economic logic?”

Park Chung Hee: “It is sincerity. If I focus my heart and soul on economic planning, wisdom will surely flow out. Every time I come up with a new economic plan, I work countless nights. I breathe my sincerity and soul into each number. Then the numbers will come to life. To be successful, numbers must come alive. Wisdom springs up when numbers come to life.”

Now, one can summarize Park Chung Hee’s political economy leadership as follows. He made the Korean economic miracle possible by implementing “economic discrimination” policies and institutions via adopting “economization of politics” under authoritarian democracy and thereby achieving “corporate-led growth” under the ideology of a capitalist corporate economy.

Finally, the paper puts Park’s choice of the political economy regime for development into perspective. For this purpose, it may be helpful to refer to the Schumpeterian vision of socialism (Schumpeter, 1942). He suggested the socialist revision to the liberal democracy that was subject to an intellectuals-and-labor unions-driven populism and to the capitalism that was losing the spirit of creative destruction was necessary to revive growth dynamism. His ideal socialism was the mixed regime of social democracy with the labor unions’ power controlled by the communist party and corporate capitalism managed by capitalist entrepreneurs, which sounds pro-corporation rather than pro-labor. So far, his vision has never been seriously tested in reality yet.¹⁶⁾

16) Henrekson and Jakobsson(2001) argue that Sweden followed a Schumpeterian transition from

There are two notable examples close to the real test of Schumpeterian vision. One is Deng Xiao-ping's China reforming communism to corporate-led socialism, so-called "market socialism," with labor unions controlled by the communist party. A more interesting case is Park Chung Hee's authoritarian democracy revising the liberal democracy by controlling the anti-capitalist political, economic, and social ideologies but supplementing the market economy with solid corporate-led capitalism. It turns out that they reformed the respective pre-reform political economy system from the opposite direction but converged to the Schumpeterian vision of a pro-corporate political economy system. The former moved from communism to corporate socialism, an improvement on communism, while the latter moved from weak capitalism to solid corporate capitalism, an improvement on the populist liberal democracy.¹⁷⁾

Then what can be learned from this comparison? The most crucial difference between Korea and China is that Korea achieved shared and inclusive growth (World Bank, 1993) under capitalism with a full-fledged market, corporate system, and political democracy (though authoritarian or less liberal when compared to the western standard), while China's growth was less shared-inclusive and was led by a communist dictatorship. The Korean case under the Park regime has shown that the Schumpeterian vision of thriving socialism and even Karl Marx's idea of a communist equal society can only be realized by the economic discrimination-driven self-help capitalism. This is too valuable to be ignored by any serious economic thinkers seeking shared and inclusive growth. From this perspective, Park's choice of economization of politics for economic discrimination policy, even by adopting so-called *authoritarianism* to build solid corporate-led capitalism, should be given due consideration by mainstream economics, political economy, and political science academia as an essential lesson for political-economic development theory and policy.

capitalism to social democracy without labor revolution but they fail to notice that Schumpeter (1942) argues his socialism needs to suppress the power of labor unions not to increase wages overly to harm corporations. Schumpeterian socialism is in fact pro-corporation than pro-labor. In this regard, Sweden is not a real test of his vision.

17) Note that Deng is known to emulate Park's regime. See Ma (2005) for this point. Deng's well-known "the rich-led nation" ideology is nearly same as the Park's economic discrimination principle.

References

- Acemoglu, Daron and James A. Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Random House, USA
- Chang, Ha-Joon (2002), *Kicking away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press.
- Fukuyama, Francis (1992), *The End of History and the Last Man*, Free Press, USA.
- Henrekson, Magnus and Ulf, Jakobsson (2001), “Where Schumpeter was Nearly Right—the Swedish Model and Capitalism, Socialism and Democracy”, *Journal of Evolutionary Economics*, Vol. 11, No. 3, pp. 331~358.
- Jwa, Sung-Hee (2006), *A New Wealth of Nation*, Seoul: Good Information press (in Korean).
- (2017), *A General Theory of Economic Development: Towards A Capitalist Manifesto*, Cheltenham, UK Northampton, MA, USA: Edward Elgar Publishing.
- (2017a), *The Rise and Fall of Korea’s Economic Development; Lessons for the Developing and Developed Economies*, Cham, Switzerland: Palgrave-Macmillan.
- (2018), “Understanding Korea’s Saemaul Undong: Theory, Evidence, and Implication”, *Seoul Journal of Economics*, Vol. 31, No. 2, pp. 195-236
- (2020), “Theory and Empirics of the Institutional Evolution of Economic Development: Application to Korean Economy with Empirical Verification”, *Seoul Journal of Economics*, Vol. 33, No. 2, Summer.
- Jwa, Sung-Hee and Sung-Kyu Lee (2019), “Resurrecting the Industrial Policy as Development Policy Based on Korean Experiences, Towards a Pro-market Industrial Policy”, *World Economics*, Vol. 20, No. 4, October–December.
- (2019a), “The Heavy-Chemical Industrialization Policy Reevaluation in Korea from the Perspective of the “General Theory of Economic Development””, *Journal of Business & Economic Policy*, Vol. 7, No. 2, June.
- Jwa, Sung-Hee and Y. Yoon (2004), “Political Institutions and Economic Development: A Study in Economic Discrimination and Political Philosophy”, *Seoul Journal of Economics*, 17 (3), pp. 275-307.
- and Y. Yoon (2004a), “A New Look at Development Economics

- through Korea's Experience: The Paradox of Economic Development", Paper presented at the 2004 KDI-KAEA Conference, Seoul.
- and Y. Yoon (2011), "Economic development and institutions", in *Institutional Economics and National Competitiveness*, edited by Young B. Choi, London: Routledge and Kegan Paul Ltd.
- Khan, Herman (1979), *World Economic Development: 1979 and Beyond*, Routledge.
- Kim, Hyung-A (2004), *Korea's Development under Park Chung Hee: Rapid Industrialization, 1961-1979*, London: Routledge Cruzon.
- Ma, Hong (2005), "Korean Economic Development from the Chinese Perspective", in Cho Lee-Jay (ed.), *Korean Modernization as the Process of a Miracle*, Seoul: Chosun Monthly, pp. 543-54 (in Korean).
- Norland and Pack (2002), *Industrial policies and growth: Lessons from International experiences, Economic Growth: Sources, Trends, and Cycles*, edited by Norman Loayza and Raimundo Soto, Santiago, Chile, Central Bank of Chile.
- Ronald I. Mckinnon (1993), *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*, The Johns Hopkins Studies in Development, Johns Hopkins University Press; 2nd edition.
- Schumpeter, Joseph (1942), *Capitalism, Socialism, and Democracy*, New York: Harper & Row.
- Tversky, A., and Kahneman, D (1981), "The Framing of Decisions and the Psychology of Choice", *Science*, New Series, Vol. 211, No. 4481, pp. 453-458.
- Wade, Robert N. (1990), *Governing the Market: Economic Theory and Taiwan's Industrial Policies*, Princeton University press, USA.
- (2012), "Return of Industrial Policy?", *International Review of Applied Economics*, 26(2), pp. 175-91.
- World Bank (1993), *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press.
- Yoon, Han-chaе (2010), *President Park Chung Hee in Re-illumination*, Gwahak Sarang (Love of Science), Seoul (in Korean).
- Yoo, Jung Ho (1990), "The Industrial Policy of the 1970s and the Evolution of the Manufacturing Sector", Working paper 9017. Seoul: Korea Development Institute.

〈한글초록〉

한국경제 기적의 원리: 박정희의 “정치의 경제화”, “경제적 차별화” 그리고 “기업경제” 사상

좌승희(박정희학술원 원장)

이 논문은 고(故) 박정희대통령이 이끈 한국의 개발연대 경제발전정책과 그 성과에 대한 그 동안의 신화를 불식시키고 한국경제의 기적을 가능하게 한 그의 정치경제적 리더십을 구명(究明)해 보고자 한다. 그의 경제정책 중 많은 부분이 비정통적이어서 주류 경제학계와 정치학계, 그리고 야당 정치권은 그 동안 그의 정치경제체제와 정책을 강하게 비판해왔다. 따라서 본 논문은 우선 박정희대통령의 정책과 성과를 객관적으로 재평가하기 위한 분석적 근거가 될 새로운 경제발전이론을 제시한다. 새로운 이론은 경제 발전을 위해서는 높은 경제성과는 보상하고, 낮은 성과는 벌(罰)하는 ‘경제적 차별화 정책’이 필요한 반면, 역으로 높은 경제성과를 무시하고 낮은 성과를 우대하는 ‘평등주의’는 경제침체를 가져온다는 명제를 제시한다. 이어 한국의 한강의 기적은 박정희대통령의 확고한 경제적 차별화 원칙 고수가 이끈 것인 반면, 현재의 경제성장 둔화는 낮은 경제 성과에 대한 평등주의적 위무(慰撫)정책에 기인하는 것이라고 주장하면서, 지난 60년 한국의 경제발전사를 재해석했다. 그리고 이 이론에 기초하여 박정희 시대에 대한 왜곡된 신화를 교정하고, 그 시대가 어떻게 비전통적인 접근 방식으로 성공할 수 있었는지 구명했다. 이 논문은 결국 박정희대통령은 권위주의적 민주주의 하에서 ‘정치의 경제화’를 통해 평등주의적 포퓰리즘을 누르고 ‘경제적 차별화’ 정책을 시행하여, 자본주의의 본질인 ‘기업경제’의 이념 아래 ‘기업주도의 성장’을 실현함으로써 한국경제의 기적을 가능하게 했다고 결론지었다.

주제어(key words): 경제발전, 경제적 차별화, 평등주의, 정치의 경제화, 경제의 정치화, 기업주도 성장.

【2023. 1. 22. 접수】 【2023. 2. 26. 수정】 【2023. 2. 27. 게재 확정】